

1999 Underpayment of Estimated Tax by Corporations

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General Instructions

Purpose of Form

Taxpayers filing Forms 99T, 120, 120A, and 120S use Form 220 to determine whether they are subject to penalty and interest for underpayment of their Arizona estimated tax liability and, if so, the amount of the penalty and interest.

The taxpayer's Arizona estimated tax liability is determined as follows:

- Forms 120, 120A, and 120S - income tax plus tax from recapture of tax credits less tax credits and the Clean Elections Fund tax reduction plus correctional industries recapture tax less the Clean Elections Fund tax credit;
- Form 99T - income tax less the Clean Elections Fund tax reduction and tax credit.

Who is Subject to the Underpayment Penalty

If the taxpayer's Arizona tax liability (after the Clean Elections Fund tax reduction and tax credit) is less than \$1,000, the taxpayer is not subject to this penalty. Arizona tax liability (after the Clean Elections Fund tax reduction and tax credit) is on Form 99T, page 1, line 7; Form 120, page 1, line 26; or Form 120A, page 1, line 18; or Form 120S, page 1, line 22.

Forms 99T, 120, and 120A: Generally, the taxpayer is subject to the penalty if the tax shown on the taxpayer's 1999 Arizona tax return is \$1,000 or more and it did not timely pay at least the **smaller** of:

- Ninety percent of the tax (after the Clean Elections Fund tax reduction and tax credit) shown on its 1999 return, OR
- The tax shown on its 1998 return (if it filed a 1998 return showing at least some amount of tax and the

return was for a period of 12 months). However, a "large corporation" may base only its first required installment on the prior taxable year's tax.

NOTE FOR FORM 120: A unitary group of corporations filing a combined return must make its estimated tax payments on a combined basis. Therefore, a unitary group, as a single taxpayer, must compute the underpayment of estimated tax penalty *on a combined basis* if its Arizona tax liability for the taxable year is \$1,000 or more.

NOTE FOR FORM 120: An Arizona affiliated group filing a consolidated return pursuant to ARS § 43-947 must make its estimated tax payments on a consolidated basis. Therefore, an Arizona affiliated group, as a single taxpayer, must compute the underpayment of estimated tax penalty *on a consolidated basis* if its Arizona tax liability for the taxable year is \$1,000 or more.

Form 120S: Generally, the taxpayer is subject to the penalty if the tax shown on the taxpayer's 1999 Arizona tax return is \$1,000 or more and it did not timely pay at least the **smaller** of:

- Ninety percent of the tax (after the Clean Elections Fund tax reduction and tax credit) shown on its 1999 return, OR
- If the taxpayer's 1998 return was filed for a period of twelve months, an amount of tax (after the Clean Elections Fund tax reduction and tax credit) equal to the sum of:

Ninety percent of the portion of the 1999 Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**

One hundred percent of the portion of the 1998 Arizona tax liability that is attributable to excess net passive income.

The penalty is calculated separately for each installment due date. Therefore, the taxpayer may owe a penalty for an earlier installment due date, even if later "catch-up" payments were made for the amount of the earlier installment due date underpayment. A taxpayer may be subject to the underpayment penalty even if the taxpayer is due a refund when its return is filed.

A taxpayer may be able to reduce or eliminate the penalty by using the annualized income installment method or the adjusted seasonal installment method.

Who Must Complete This Form

A taxpayer **DOES NOT HAVE TO COMPLETE** Form 220, *Underpayment of Estimated Tax by Corporations*, if the taxpayer made its estimated tax payments based on either of the following methods:

- *All taxpayers:* An amount equal to 90 percent of the current taxable year's tax liability (after the Clean Elections Fund tax reduction and tax credit), paid in four equal installments; or

- *Form 99T, 120, and 120A:* An amount equal to 100 percent of the taxpayer's tax liability (after the Clean Elections Fund tax reduction and tax credit) for the prior taxable year, paid in four equal installments. A "large corporation" may not use this method.

The department will compute the estimated tax penalty and interest based on either of these methods and notify the taxpayer of any amount due.

A taxpayer **MUST COMPLETE** Form 220, even though no penalty is due, if it made its estimated tax payments based on any of the following methods:

- *All taxpayers:* The annualized income installment method; **or**
- *All taxpayers:* The adjusted seasonal installment method; **or**
- *Forms 120 and 120A:* The taxpayer is a "large corporation" that computed its first required installment based on the taxpayer's tax liability for the prior taxable year; **or**
- *Form 120S:* An amount (after the Clean Elections Fund tax reduction and tax credit), paid in four equal installments, that is equal to the sum of:

Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**

One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

How To Use This Form

Check the applicable boxes in Part A. Complete Part B to determine if the taxpayer has an underpayment for any of the four installment due dates. If the taxpayer has an underpayment on line 15 (column (a), (b), (c), or (d)), go to Part C to calculate the penalty.

If the taxpayer is required to complete Form 220, attach the completed Form 220 to the taxpayer's Arizona tax return. Check the box on Form 99T, page 1, line 14; Form 120, page 1, line 34; Form 120A, page 1, line 25; or Form 120S, page 1, line 29.

Line-by-Line Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year (in an MM/DD/YYYY format).

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation is the corporation's federal employer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

Part A - Reasons for Filing Form 220

Lines 1 and 2 - Annualized Income Installment Method and/or Adjusted Seasonal Installment Method

If the taxpayer's income varied during the taxable year because, for example, it operates its business on a seasonal basis, it may be able to lower the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method.

Use the Form 220 Schedule A to calculate one or more required installments. If Schedule A is used for any payment due date, it must be used for all payment due dates.

Use Schedule A to arrive at the amount of each required installment and to select the lesser of:

- the annualized income installment;
- the adjusted seasonal installment (if applicable); or
- the regular installment (25 percent of the required annual payment) increased by any reduction recaptured under IRC § 6655(e)(1)(B).

Follow the steps below to determine which parts of the Form 220 Schedule A to complete.

- If the taxpayer is using only the annualized income installment method, check the box on line 1 of Part A and complete Parts I and III of Schedule A.
- If the taxpayer is using only the seasonal installment method, check the box on line 2 of Part A and complete Parts II and III of Schedule A.
- If the taxpayer is using both methods, check the boxes on lines 1 and 2 of Part A and complete all three parts of Schedule A.
- All taxpayers: In each column on line 8, enter the amounts from the corresponding column of line 52 of Schedule A. Attach a copy of Schedule A to Form 220.

Line 3 - Large Corporations (Forms 120 and 120A)

"Large corporation" means a corporation or unitary group of corporations if the corporation, or a predecessor corporation, had federal taxable income of one million dollars or more for any of the immediately preceding three taxable years, excluding any federal net operating loss or capital loss carrybacks or carryovers. An Arizona affiliated group filing a consolidated return pursuant to ARS § 43-947 is treated as a single corporation for purposes of applying the large corporation definition.

If the taxpayer is a large corporation, check the box on line 3 of Part A. In addition, if applicable, check the box(es) on line 1 and/or line 2. Complete Parts I, II, and III of Schedule A, as discussed above.

Part B - Calculation of Underpayment

Line 5 - Arizona Tax Liability

Enter the 1999 Arizona tax liability (after the Clean Elections Fund tax reduction and tax credit) from Form 99T, page 1, line 7; Form 120, page 1, line 26; or Form 120A, page 1, line 18; or Form 120S, page 1, line 22.

FORM 120 FILERS: *Taxpayers that filed amended consolidated returns and have a retroactive consolidation tax payment credit available should use the Arizona tax liability after application of that credit for purposes of computing underpayment of estimated tax.*

Claim of right adjustments: Taxpayers computing the Arizona tax liability under the claim of right provisions of ARS § 43-1130.01 should use the Arizona tax liability reduced by those provisions for purposes of computing underpayment of estimated tax.

Clean Elections Fund adjustments: Taxpayers that reduce Arizona tax liability by directing five dollars of tax to the Citizens Clean Elections Fund or claiming a tax credit for a donation to the fund should use the Arizona tax liability after these adjustments for purposes of computing underpayment of estimated tax.

Line 6 - Required Annual Payment

The Arizona required annual payment of estimated tax is the smaller of:

- *All taxpayers* - Ninety percent of the taxpayer's Arizona tax liability (after the Clean Elections Fund tax reduction and tax credit) for the current taxable year; **or**
- *Forms 99T, 120, and 120A* - one hundred percent of the taxpayer's Arizona tax liability (after the Clean Elections Fund tax reduction and tax credit) for the prior taxable year.

Form 120S - an amount (after the Clean Elections Fund tax reduction and tax credit) equal to the sum of:

Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in-gains income or certain capital gains income; **plus**

One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

Line 6a - (All Taxpayers)

Multiply line 5 by 90 percent. Enter the result on line 6a.

Line 6b - (Forms 99T, 120, and 120A)

Determine the amount of the taxpayer's Arizona tax liability from the prior taxable year - 1998 Form 120, line 23; 1998 Form 99T, line 4. Subtract the Clean Elections Fund tax reduction and tax credit from this amount. Enter the net amount on line 6b.

DO NOT COMPLETE THIS LINE IF: (1) a return was not filed for the taxable year showing at least some amount of tax liability (an amount greater than zero), OR (2) the 1998

taxable year was a period of less than twelve months. Skip line 6b and enter the amount from line 6a on line 6d.

Line 6c - (Form 120S)

Enter an amount (after the Clean Elections Fund tax reduction and tax credit) on line 6c that is the sum of:

- Ninety percent of the portion of the 1999 Arizona tax liability that is attributable to built-in gains income or certain capital gains income, **plus**
- One hundred percent of the portion of the 1998 Arizona tax liability that is attributable to excess net passive income.

DO NOT COMPLETE THIS LINE IF the 1998 taxable year was a period of less than twelve months. Skip line 6c and enter the amount from line 6a on line 6d.

Line 6d - (All Taxpayers)

Forms 99T, 120, and 120A - Enter the smaller of line 6a or line 6b (if an amount was entered on line 6b).

Form 120S - Enter the smaller of line 6a or line 6c, (if an amount was entered on line 6c).

Line 7 - Installment Due Dates

Calendar year basis taxpayers: Enter 4/15/99, 6/15/99, 9/15/99, and 12/15/99, respectively, in columns (a) through (d).

Fiscal year basis taxpayers: Enter the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year in columns (a) through (d). If the installment due date falls on a weekend or legal holiday, the payment is considered timely if made on the next business day.

NOTE: *For short period returns, enter the installment due dates and the number of installments required by the Internal Revenue Service.*

Line 8 - Required Installments

Each required installment is 25 percent of the required annual payment (line 6d) *unless* the taxpayer checked the box(es) on lines 1, 2 or 3 of Form 220, Part A.

Instructions for "Large Corporations" – Forms 120 and 120A.

A. If the box on line 3 (but not the box on line 1 or line 2) is checked, follow the instructions below to compute the amount to enter Part B, line 8.

If line **6a** is **less than** line **6b**:

- Enter 25 percent of line 6a in columns (a) through (d) of line 8.

If line **6b** is **less than** line **6a**:

- Enter 25 percent of line 6b in column (a) of line 8.
- Determine the amount to enter in column (b) of line 8 as follows:
 - (i) Subtract line 6b from line 6a,

- (ii) Add the result to the amount on line 6a, and
- (iii) Multiply the total in (ii) above by 25 percent.
- Enter 25 percent of line 6a in columns (c) and (d) of line 8.

B. If the box on line 3 **and** the box on line 1 and/or line 2 is checked, use the following instructions to determine the amounts to enter on the Form 220 Schedule A, Part III, line 48, columns (a) through (d). Then complete the remainder of the lines in Part III of Schedule A. Enter the amounts from Schedule A, Part III, line 52, columns (a) through (d) on Form 220, Part B, line 8, columns (a) through (d).

If Form 220, Part B, line **6a** is **less than** line **6b**:

- Enter 25 percent of line 6a in columns (a) through (d) of Schedule A, Part III, line 48.

If Form 220, Part B, line **6b** is **less than** line **6a**:

- Enter 25 percent of line 6b in column (a) of Schedule A, Part III, line 48.
- Determine the amount to enter in column (b) of Schedule A, Part III, line 48 as follows:
 - (i) Subtract line 6b from line 6a,
 - (ii) Add the result to the amount on line 6a, and
 - (iii) Multiply the total in (ii) above by 25 percent.
- Enter 25 percent of line 6a in columns (c) and (d) of Schedule A, Part III, line 48.

Line 9 – Estimated Tax Paid or Credited

Enter the estimated tax payments made by the taxpayer for its taxable year *as indicated below*.

The department will apply the payment of a required installment in the order in which the installments are required to be paid.

Include any overpayment of tax from the taxpayer's 1998 Arizona tax return that the taxpayer elected to apply to its 1999 Arizona estimated tax. Unless otherwise designated by the taxpayer, the department will apply the overpayment of tax from the taxpayer's 1998 Arizona tax return to the first required installment of estimated tax for the 1999 Arizona tax return.

Column (a). Enter payments made by the 15th day of the fourth month.

Column (b). Enter payments made after the 15th day of the fourth month through the 15th day of the sixth month.

Column (c). Enter payments made after the 15th day of the sixth month through the 15th day of the ninth month.

Column (d). Enter payments made after the 15th day of the ninth month through the 15th day of the 12th month.

Line 15 - Underpayment

This amount (an amount greater than zero) is the underpayment of a required installment. If an amount greater than zero is entered here, the taxpayer should complete Part C to calculate the underpayment penalty.

Part C – Underpayment of Estimated Tax Penalty

The underpayment of estimated tax penalty is imposed on any required installment of estimated tax that is late or underpaid. The penalty is equal to the interest that would accrue under ARS § 42-1123 on the amount not paid for the period of nonpayment, not to exceed 10 percent of the amount not paid.

Compute the underpayment penalty for any underpayment of a required installment for the period of nonpayment on page 2, Part C, lines 17 through 33. "Underpayment" refers to a late payment or underpayment of a required installment.

Compute the penalty by applying the applicable rate to each underpayment. The penalty is computed for the number of days that the underpayment remained unpaid or until the original due date of the return, whichever is earlier.

The Arizona interest rates are established at various times during the year. (Arizona interest rates are the interest rates prescribed by IRC § 6621 for each calendar quarter with certain exceptions.)

NOTE CHANGES FOR 1999:

Laws 1999, Ch. 5, § 30 (HB 2078) provides that the overpayment interest rate for any amount of tax to be refunded to a taxpayer for the periods January 1, 1999 through September 30, 1999, shall be the rate prescribed by IRC § 6621(a)(1) as amended and in effect as of January 1, 1998.

Laws 1999, Ch. 250, § 4 (HB 2396) provides that the rate of interest for both underpayments and overpayments *for all taxpayers* is the federal short-term rate, determined pursuant to IRC § 6621(b), plus three percentage points. This amendment to ARS § 42-1123 is effective from and after September 30, 1999.

If the taxpayer has made more than one payment for a required installment, attach a separate computation for each payment.

NOTE FOR COMPOUND PENALTY AMOUNT: *The penalty is compounded annually (on January 1 of each year) on any underpayment of an installment outstanding as of that date. The compound penalty amount is added to the principal amount of the underpayment. The amount added to the principal accrues penalty until the underpayment is paid or until the original due date of the return, whichever is earlier.*

Line 33 - Penalty Limitation

The penalty for an underpayment of a required installment cannot exceed 10 percent of the amount not paid.

Part D – Interest Computation

Compute the interest on any late or underpaid required installments on page 2, Part D, lines 34 through 49.

Compute the interest by applying the applicable rate to each underpayment. "Underpayment" refers to a late payment or underpayment of a required installment. The interest is computed for the number of days that the underpayment remained unpaid or until the original due date of the return, whichever is earlier.

The Arizona interest rates are established at various times during the year. (Arizona interest rates are the interest rates prescribed by IRC § 6621 for each calendar quarter with certain exceptions.)

NOTE CHANGES FOR 1999:

Laws 1999, Ch. 5, § 30 (HB 2078) provides that the overpayment interest rate for any amount of tax to be refunded to a taxpayer for the periods January 1, 1999 through September 30, 1999, shall be the rate prescribed by IRC § 6621(a)(1) as amended and in effect as of January 1, 1998.

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If the taxpayer has made more than one payment for a required installment, attach a separate computation for each payment.

NOTE FOR COMPOUND INTEREST AMOUNT:

Interest is compounded annually (on January 1 of each year) on any interest outstanding as of that date. The compound interest amount is added to the principal amount of the underpayment. The amount added to the principal accrues interest until the underpayment is paid or until the original due date of the return, whichever is earlier.

Part E - Total Penalty and Interest

Add the amounts from Part C, line 33, and from Part D, line 49. Round the total to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down. Enter the total on Part E, line 50, and on Form 99T, line 14; or Form 120, line 34; or Form 120A, line 25; or Form 120S, line 29.

Form 220 Schedule A

Part I - Annualized Income Installment Method

Line 1 - Annualization Periods

Enter the annualization period that the taxpayer is using in the space on line 1, columns (a) through (d), respectively.

Forms 120, 120A, and 120S

	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	3	3	6	9
Option 1	2	4	7	10
Option 2	3	5	8	11

Form 99T

	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	2	3	6	9
Option 1	2	4	7	10

Line 3 - Annualization Amounts

Enter the annualization amounts for the option used on line 1 above.

Forms 120, 120A, and 120S

	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	4	4	2	1.33333
Option 1	6	3	1.71429	1.2
Option 2	4	2.4	1.5	1.09091

Form 99T

	1st Installment	2nd Installment	3rd Installment	4th Installment
Standard option	6	4	2	1.33333
Option 1	6	3	1.71429	1.2

Line 5 - Calculate the Tax

Calculate the tax on the amount in each column using the instructions for Form 99T, line 4; or Form 120, line 16; or Form 120A, line 8; or Form 120S, line 12.

Line 6 - Recapture of Tax Credits

Enter the tax from the recapture of the environmental technology facility credit and/or the recycling equipment credit. Calculate this amount using the instructions for Form 120, line 17; or Form 120A, line 9; or Form 120S, line 13. Form 99T filers, enter zero.

Line 8 - Clean Elections Fund Tax Reduction

Enter the amount of the Clean Elections Fund tax reduction, if applicable. Refer to the instructions for Form 99T, line 5;

or Form 120, line 19; or Form 120A, line 11; or Form 120S, line 15.

Line 9 - Tax Credits

Enter the tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings used to calculate annualized taxable income. Calculate this amount using the instructions for Form 120, line 20; or Form 120A, line 12; or Form 120S, line 16. Form 99T filers, enter zero.

Line 11 - Correctional Industries Recapture Tax

Enter the amount of the correctional industries recapture tax, if applicable; refer to the instructions for Form 120, line 23; or Form 120A, line 15; or Form 120S, line 19. Form 99T filers, enter zero.

Line 13 - Clean Elections Fund Tax Credit

Enter the amount of the Clean Elections Fund tax credit, if applicable. Refer to the instructions for Form 99T, line 6; or Form 120, line 25; or Form 120A, line 17; or Form 120S, line 21.

Line 14 - Arizona Tax Liability After Clean Elections Fund Tax Credit

Subtract line 13 from line 12. Enter the difference.

FORM 120 FILERS: *Taxpayers who made a retroactive election to file on a consolidated basis for taxable years 1986 through 1993, and who have a consolidation tax payment credit available from those taxable years, may base their required installments for taxable years beginning July 1, 1995, or later on their computed Arizona tax liability reduced by the available credit. The maximum amount of credit that can be used in any taxable year is 10 percent of the total credit or the amount of the tax liability (after the Clean Elections Fund tax reduction and tax credit), whichever is less.*

Line 17 - Cumulative Installments

Complete column (a) before completing columns (b) through (d). Before completing line 17 in columns (b) through (d), complete line 18, Part II (if applicable), and lines 47 through 52, in each of the preceding columns.

EXAMPLE: Complete line 18, lines 19 through 46 (if using the adjusted seasonal installment method), and lines 47 through 52, in column (a) before completing line 17 in column (b).

Part II - Adjusted Seasonal Installment Method

Do not complete this part unless the taxpayer's base period percentage for any six consecutive months of the taxable year equals or exceeds 70 percent. The term "base period percentage" for any period of six consecutive months is the average of the three percentages calculated by dividing the taxable income for the corresponding six month period in each of the three preceding taxable years by the taxable

income for each of their respective taxable years.

Line 28 - Calculate the Tax

Calculate the tax on the amount in each column using the instructions for Form 99T, line 4; or Form 120, line 16; or Form 120A, line 8; or Form 120S, line 12.

Line 35 - Recapture of Tax Credits

Calculate the tax from the recapture of the environmental technology facility credit and/or the recycling equipment credit. Use the instructions for Form 120, line 17; or Form 120A, line 9; or Form 120S, line 13. Form 99T filers, enter zero.

Line 37 - Clean Elections Fund Tax Reduction

Enter the amount of the Clean Elections Fund tax reduction, if applicable. Refer to the instructions for Form 99T, line 5; or Form 120, line 19; or Form 120A, line 11; or Form 120S, line 15.

Line 38 - Tax Credits

Enter the tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings above line 19. Calculate this amount using the instructions for Form 120, line 20; or Form 120A, line 12; or Form 120S, line 16. Form 99T filers, enter zero.

Line 40 - Correctional Industries Recapture Tax

Enter the amount of the correctional industries recapture tax, if applicable; refer to the instructions for Form 120, line 23; or Form 120A, line 15; or Form 120S, line 19. Form 99T filers, enter zero.

Line 42 - Clean Elections Fund Tax Credit

Enter the amount of the Clean Elections Fund tax credit, if applicable. Refer to the instructions for Form 99T, line 6; or Form 120, line 25; or Form 120A, line 17; or Form 120S, line 21.

Line 43 - Arizona Tax Liability After Clean Elections Fund Tax Credit

Subtract line 42 from line 41. Enter the difference.

FORM 120 FILERS: *Taxpayers who made a retroactive election to file on a consolidated basis for taxable years 1986 through 1993, and who have a consolidation tax payment credit available from those taxable years, may base their required installments for taxable years beginning July 1, 1995, or later on their computed Arizona tax liability reduced by the available credit. The maximum amount of credit that can be used in any taxable year is 10 percent of the total credit or the amount of the tax liability (after the Clean Elections Fund tax reduction and tax credit), whichever is less.*

Line 45 - Cumulative Installments

Complete column (a) before completing columns (b) through (d). Before completing line 45 in columns (b) through (d),

complete lines 46 through 52 *in each of the preceding columns.*

EXAMPLE: Complete lines 46 through 52 *in column (a)* before completing line 45 *in column (b).*